

Report on
Low Cost Automobile Insurance Pilot Program
2001 Informational Hearings



California Department of Insurance

Harry W. Low, Insurance Commissioner

January 2002

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Introduction

In late June 2001, the California Department of Insurance (CDI) held two information-gathering “investigatory” hearings on California’s low-cost automobile (LCA) insurance pilot program. As the pilot program was approaching its one-year anniversary, there was a growing awareness by consumer organizations, insurance industry representatives, community organizations, and legislative supporters that the pilot program was not performing up to expectations. Fewer than 900 of the state-sponsored low-cost auto insurance policies had been sold.

The purpose of the hearings was to gather input from a broad range of constituents who have an interest in the program in order to assist the Department of Insurance with its community outreach and consumer education efforts. The Department was also interested in suggestions for improvements to make the program more effective.

This report provides a brief history of the low-cost auto insurance program, a description of how the program is administered, an overview of community outreach and consumer education activities, and a summary of testimony from the two public hearings – one in Los Angeles and one in San Francisco.

■— History and Background

California's low-cost automobile insurance program was created on October 10, 1999, when Governor Gray Davis signed two bills, SB 171 (Escutia) and SB 527 (Speier), which established pilot programs in Los Angeles and San Francisco counties.

The low-cost auto insurance program was created in part as a response to a 1996 law (AB 650, Speier) that required motor vehicle owners to provide evidence of financial responsibility when registering their vehicle each year, required drivers to produce proof of insurance upon demand, and imposed fines and authorized the impounding of vehicles when financial responsibility laws were violated.

AB 650 was scheduled to end, or “sunset,” on January 1, 2000, and extending it was a major impetus for creation of the low-cost auto insurance policy. The argument was that if the state was requiring all motorists to have insurance, the state had a responsibility to provide an affordable automobile insurance option for low-income California motorists so that they could comply with the law.

Another objective was reducing the soaring number of uninsured vehicles in California. According to a 1999 California Department of Insurance report, there were an estimated 4.3 million uninsured vehicles in California in 1997, roughly 21 percent of all vehicles in the state. There were approximately 1.7 million uninsured vehicles in Los Angeles County, about 32 percent of vehicles in that county, and 86,000 uninsured vehicles in the City and County of San Francisco, roughly 23 percent of the total number of vehicles. Experts say the law-abiding motorists who buy insurance are subsidizing uninsured motorists in the form of higher premiums.

■— Policy Design and Eligibility

The low-cost auto insurance policy, as prescribed by state law, is a basic 10/20/3 liability policy, providing up to \$10,000 for bodily injury or death per person in an accident, a maximum of \$20,000 for bodily injury or death per accident, and up to \$3,000 property damage for each accident. The low-cost auto insurance policy coverage limits are lower than the minimum liability limits of 15/30/5 required by California law for regular policies, but purchase of a state-authorized low-cost auto insurance policy satisfies the state's financial responsibility law for motorists. As a liability-only policy, a low-cost policy does not pay benefits to the policyholder in an accident.

The annual base premium cost for a low-cost auto insurance policy is \$450 in Los Angeles County and \$410 in San Francisco. There is a 25 percent surcharge for unmarried male drivers between ages 19 and 25. Several installment payment options are available, with a minimum \$100 down payment.

In order to qualify for a low-cost auto policy, the applicant must be low income, which is defined by state law as having a household income that does not exceed 150 percent of the federal poverty level. Currently, for a one-person household, 150 percent of federal poverty level is \$12,885 per year; for a four-person household, it is \$26,475.

Other eligibility criteria include being a "good driver," defined as having no more than one at-fault property damage accident, or more than one "point" for a moving violation, no at-fault accident involving bodily injury or death, and no felony or misdemeanor conviction for a violation of the California Vehicle Code. Applicants must be residents of one of the two pilot counties, Los Angeles and San Francisco.

■— Program Administration

The California Automobile Assigned Risk Plan (CAARP), which administers the state's assigned risk insurance plan for drivers otherwise unable to obtain insurance, is designated by state law as the administrator of the low-cost automobile insurance program. The Department of Insurance has regulatory oversight over the program.

Shortly after SB 171 and SB 527 were signed into law, creating the low-cost auto insurance program, the California Department of Insurance, under the administration of then-Commissioner Chuck Quackenbush, held a pre-implementation hearing on October 16, 1999. Insurance industry and consumer representatives were invited to provide input on how to implement the newly created program. In January 2000, the Department of Insurance and CAARP commenced promulgation of emergency program regulations, which were approved in March 2000. Permanent regulations were approved June 2001.

Only CAARP-certified agents or brokers are authorized to accept applications for the low-cost auto insurance policy. There are approximately 7,500 CAARP-certified agents in the two pilot counties. All CAARP-certified agents are eligible to sell low-cost auto insurance policies, but they are not required to sell the policies.

Consumers and agents can contact CAARP via a toll-free 800 telephone number, regular mail or e-mail to obtain eligibility and application information. Information is also available on the CAARP and Department of Insurance Internet Web sites. Low-cost auto application materials are available in 10 languages.

The telephone information process includes a description of what a low-cost auto insurance policy covers, the coverage limits, and determination of general eligibility. If a caller appears to be eligible for a low-cost auto policy, he or she will be mailed a list of CAARP-certified agents located in the caller's community. After that, it is the responsibility of the caller to follow up and contact an agent to apply for a policy.

As a practical matter, all private passenger automobile insurers must accept a fair share of low-cost auto insurance applications eligible for coverage. CAARP assigns applications based on each insurer's share of the California market.

■— **Community Outreach and Consumer Education**

In addition to developing regulations for the low-cost auto insurance program, the Department of Insurance initiated a public education campaign to promote the state-sponsored low-cost auto insurance policies, even though there was no specific statutory requirement or appropriation of funds for that purpose. A contract was awarded to the Deen + Black public relations firm (which was subsequently taken over by Ogilvy Public Relations Worldwide), which included \$739,000 for a public awareness campaign to promote the new low-cost auto insurance policies.

Key elements of the Deen + Black campaign

- Creation of “media kits,” which included a backgrounder, fact sheet, tip sheet, print news releases, radio releases, and media alerts to publicize the July 1, 2000, launch of the pilot program.
- Media kit materials, translated into Spanish, Chinese, and Tagalog, were distributed to print, radio, and television media outlets in the Los Angeles and San Francisco markets, including ethnic media outlets.
- Radio ads adjacent to traffic reports were aired in both the Los Angeles and San Francisco markets.
- Print ads were placed in more than 20 ethnic publications in Los Angeles and San Francisco.
- Print ads were placed in the PennySaver free classified ads in Los Angeles and San Francisco.
- Billboards were placed in 400 locations in Los Angeles County.
- Posters were placed in 25 bus stop shelters in San Francisco.

The Deen + Black public awareness campaign began around the July 1, 2000, launch of the low-cost auto insurance program and continued for several months through fall 2000. Limited distribution of printed outreach materials continued through June 2001.

■— Commissioner Low Conducts Review

Just as the low-cost auto insurance program was being launched, Chuck Quackenbush resigned as Insurance Commissioner in July 2000. Retired State Appeal Court Justice Harry Low was appointed by Governor Gray Davis in September 2000 to fill the remainder of Quackenbush's term.

Shortly after taking office, Commissioner Low recognized the low-cost auto insurance program was not performing up to expectations. Meetings were held with legislators, insurance industry representatives, insurance agents and brokers, consumer advocates, and community advocates to solicit input and ideas on how to make the low-cost auto program more effective. There was a pervasive view among some interested parties that the Department of Insurance's initial community outreach and consumer education approach did not effectively reach the low-income population that the program is designed to serve. There were numerous suggestions that a grassroots outreach approach more narrowly targeted to low-income consumers would be more effective.

It was also during these discussions with stakeholders that suggestions were made to conduct focus groups and public hearings to gather information that might be helpful in guiding the Department of Insurance's community outreach and consumer education efforts. The Greenlining Institute, a coalition of organizations that serve low-income people, suggested that holding public hearings in community facilities rather than government facilities would be more convenient and less intimidating for the low-income population that the low-cost auto insurance program is trying to serve. The Department of Insurance accepted the Greenlining Institute's offer to assist with finding suitable hearing locations in Los Angeles and San Francisco.

■— Preparation for Public Hearings

Preparation for the public hearings began in spring 2001. The Mission Language and Vocational School in San Francisco and the Resurrection Church in Los Angeles were chosen as the public hearing venues. Both facilities are located in low-income areas and generally serve a low-income clientele, making them convenient for members of the target population to participate in the hearings.

In addition to the required public notice (Appendix A), invitations to participate and provide testimony were sent to all legislators and many elected officials in the two pilot counties, insurance industry trade associations, insurance agents and brokers trade associations, consumer advocacy organizations, and advocates for low-income communities.

The hearing notice stated that the issues to be considered would include, but not necessarily be limited to:

- Effective strategies for raising public awareness and educating eligible consumers about the low-cost auto insurance program.
- Effective marketing messages and themes for generating consumer interest in the low-cost auto insurance program.
- Identification of motivating factors and barriers to purchase low-cost auto insurance policies.

The San Francisco hearing was held on June 26, 2001, and the Los Angeles hearing was held on June 28, 2001.

Summary of Testimony

Insurance Commissioner Harry Low presided at both hearings. Richard Manning, Regional Director of the California Automobile Assigned Risk Plan, the administrator of the low-cost automobile insurance program, and Brian Perkins, Senate Insurance Committee consultant to State Senator Jackie Speier, participated in both hearings. Cesar Motts of State Senator Martha Escutia's staff participated in the Los Angeles hearing.

Both hearings opened with introductory remarks by Commissioner Low about the purpose of the hearing and the importance of providing an affordable auto insurance option for low-income motorists. Richard Manning described how the program is administered and provided a program update. He reported that through May 31, 2001, 848 low-cost auto policies had been sold and that CAARP had spent more than \$500,000 during the program's first year on administrative costs and training for agents.

There was general acknowledgment by hearing participants that the low-cost auto insurance policies were not selling well. Much of the testimony focused on reasons why.

There was a broad view that the state-sponsored low-cost auto insurance policy, while relatively low cost, was still too expensive for many low-income consumers to afford. The situation is exacerbated, according to some observers, by the fact that the policy provides very little value to the target population. They say low-income people generally have minimal assets to protect so they don't need liability insurance; and the policy pays liability damages to the other party in an accident but provides no benefits to the purchaser of the policy.

There was also general acknowledgement that most low-income consumers were not aware of the existence of the state-sponsored low-cost auto policies due to inadequate consumer outreach and the ineffectiveness of the limited outreach that had been conducted. Suggestions were made to more narrowly target outreach to the low-income population by working more closely with community-based organizations and government organizations that serve a low-income clientele and the state Department of Motor Vehicles.

Some hearing participants believed that insurance agents and brokers are not enthusiastic supporters of the program. But there was also a general recognition that low-cost premiums mean low sales commissions, and that it is somewhat understandable for a businessperson to look for business opportunities to maximize income. Agents argued that their lack of enthusiasm for the low-cost auto insurance policies has more to do with concerns about the adequacy of the low coverage limits and possible legal ramifications for steering their clients to a policy that might be judged as inadequate.

While hearing participants were critical of many aspects of the low-cost auto insurance policies, there was also some recognition that it is a pilot program, and the concept of a pilot program is to try something to see if it works and to identify flaws and fix them before making the program permanent.

Recommended fixes ranged from modest changes such as expanding eligibility by raising the eligibility income cap and adding more pilot locations to more extensive overhauls such as first-party coverage, pay-at-the-pump auto insurance, and publicly subsidizing the premium cost for low-income motorists.

■— Policy Too Expensive and Lacks Value

There was nearly a universal view that the current low-cost auto insurance policy is still too expensive for most low-income people. While the annual premium cost of a low-cost auto insurance policy is relatively low compared to a regular auto insurance policy, there were numerous observations from consumer and community representatives that an annual premium rate of \$450 in Los Angeles and \$410 in San Francisco is still too high for people with annual incomes of \$15,000 to \$30,000.

“The price is much too high for low-income people, and there are no benefits for the low-income person. Who wants to give up food for their children or medicine for their children for an insurance policy that makes no difference to your well-being?” – Bob Gnaizda, Greenlining Institute

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“Low-cost automobile insurance should be more expansive, less expensive, and less restrictive. When we proposed it, the program, it should have been a \$300 policy. We still believe those numbers are sound.” – Doug Heller, Foundation for Taxpayer and Consumer Rights

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“The report found that more than half of the respondents said they could not afford even \$300 per year for automobile insurance. Adjusting that for 2001 dollars, this means they could not afford even \$391 in today’s market.” – Norma Garcia, Consumers Union, referring to “Affordability of Auto Insurance Among Low Income Families in Los Angeles” (1991)

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“I cannot afford to pay insurance. So I have no choice. I drive without insurance. And I know it’s illegal, but what can I do?”
– Ms. Vega, member of the public

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“\$400 might seem like not a lot of money considering how expensive insurance is, but is that really affordable for myself and my community?” – Sabrina Charles, Allen Temple Baptist Church

There were numerous observations that low-income people are struggling to pay for immediate necessities such as housing, food, and clothing, and that they cannot afford to pay \$450 for auto insurance even if they would like to have it and state law requires it.

“Working poor need and want insurance, but they cannot afford it. They cannot afford it because they first have to pay for housing; they have to pay for food.” – Rosario Anaya, Director, Mission Language and Vocational School

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“Many people at such a low income level will likely spend most of their money on rent and food and be unable to afford a car. And many choose to use the public transportation system in the city [San Francisco] since Muni and BART are usually very convenient.”
– Darcy Ting, Consumer Action, San Francisco

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“It’s understandable that households which are hard-pressed to pay for food, clothing, and other basic needs give a low priority to car insurance, especially when liability coverage, which [this] auto insurance policy provides, promises to protect assets when there are no assets to protect.” – Sam Sorich, National Association of Independent Insurers

Many community advocates and industry representatives believe the current liability-only policy provides very little value to low-income consumers, arguing that low-income people for the most part have few or no assets to protect, one of the key reasons for purchasing liability insurance.

“The people this product was designed to protect are judgment proof. They have no assets. They have no need for this policy. It doesn’t help them.” – Janine Gibford, Association of California Insurance Companies

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“Liability insurance is designed to protect assets. People who have little or no assets receive no benefit from this policy. It’s akin to requiring someone to buy yacht insurance when they don’t even own a boat.” – Michael Gunning, Personal Insurance Federation

Many low-income community advocates, consumer advocates, and insurance industry representatives believe the current low-cost auto insurance policy is not a compelling purchase for low-income consumers because after an accident, the current policy pays for injuries and damages to the other party but provides no benefit for the person who bought the policy.

“For many low-income residents, it does not make sense to buy a policy that requires a large chunk of their very scarce resources yet does not protect them from any losses in an accident.”

– Darlene Mar, National Council of Asian American Business Association, CAARP Advisory Committee member, and insurance broker

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“The poor can’t afford this program. They don’t want to pay for a policy that doesn’t provide them any benefits. I found that a lot of drivers are able to obtain lower rates than those offered through the [LCA] policy. They are good drivers, and they are able to get better prices.” – Itzel Berrio, Greenlining Institute

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“Truly low-income families do not have the extra money to buy this policy. When you’re in an economically challenged situation and you have some extra money, you think, ‘How can I get the most bang for my buck?’ And the most bang for the buck comes when you need to buy food for your children and keep the lights on, not buying an insurance policy that doesn’t protect you, your property, and your children.” – Janine Gibford, Association of California Insurance Companies

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“Approximately 85 percent would purchase a low-cost auto insurance policy that costs \$300 a year or less and which provides coverage whether the insured is at fault or not, pays for damage to the driver’s property, and provides medical benefits and lost wages in case of injury to the driver.” – Joe Danganan, Greenlining Institute, citing results of a survey of low-income consumers

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“The program being reviewed today is still not adequate. Cost continues to be a factor, when you take into consideration that the coverage does not include the primary driver, his own vehicle, and his passengers.” – Nativo Lopez, Hermandad Mexicana Nacional

■— Better Consumer Outreach and Marketing Needed

Many hearing participants attributed the low number of policies sold to the lack of public awareness. There were suggestions that the initial public awareness campaign conducted by a public relations firm was ineffective because it did not do a good job of targeting the low-income consumers who qualify for the low-cost auto insurance policies.

Consumer and community advocates suggested that the state should work more closely with community leaders and community-based organizations to promote the policies. Other suggestions included working more closely with the Department of Motor Vehicles on disseminating information and conducting focus groups to identify better marketing approaches and messages.

There was a sentiment that identifying the low-cost auto insurance policies as being state-sponsored would distinguish them from regular commercial policies and give them greater trustworthiness. It was pointed out that the state's Healthy Families health insurance plan for children of low-income families has a \$21 million annual advertising budget, but the low-cost auto program has none. However, there was also considerable sentiment that outreach was irrelevant because the policy does not meet the needs of the target population and, therefore, has no market appeal.

“People don’t know that we have a low-cost automobile insurance program in California. How are you going to sell a policy for insurance if people don’t know it’s out there? It’s like throwing a party but forgetting to send out the invitations.” – Doug Heller, Foundation for Taxpayer and Consumer Rights

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“Unless and until there is an effective publicity campaign, I think it’s premature to measure the success or failure of this low-cost auto program.” – Norma Garcia, Consumers Union

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“This is a wonderful program. It needs to be marketed. We should market through the DMV; we should market through the churches; we should put fliers up in markets. We should do whatever is necessary to inform the public that this is available.”
– Robert Fink, Consumer Attorneys of California

“Additional outreach, especially to community leaders and community groups, is certainly indicated.” – Delia Chilgren, Allstate Insurance



“Focus groups could provide an important road map for determining the right message and the method of delivery of the information to the target communities.” – Norma Garcia, Consumers Union



“Outreach efforts could be improved. And perhaps one way to do this is asking the community what we know the community listens to.”
– Sabrina Charles, Allen Temple Baptist Church



“You need to identify the program as state-sponsored to differentiate this low-cost auto insurance program from many others that advertise themselves as low-cost and oftentimes mean low value.” – Norma Garcia, Consumers Union



“How can you expect individuals to pay for something which provides them very, very little value? It is not so much a question of marketing, because if you have a good product that provides value, it will market itself.” – Jorge Corralejo, Latin Business Association



“I don’t think this was the best written legislation – no disrespect to anyone. And I think once it got all politicked to the point that it is now, it didn’t serve the consumer. The facts are you can outreach all day, and this isn’t the best product for the consumer.”
– Lori Gay, Director, Los Angeles Neighborhood Housing Services, and former CAARP Advisory Committee member

■— Agents and Brokers Lack Incentive

There were comments by low-cost auto insurance program supporters that insurance agents and brokers were not supportive of the low-cost auto program, saying that agents were not aggressively trying to market low-cost auto policies and that when consumers inquired about low-cost auto policies, agents would often try to steer them to a different insurance product.

Representatives of agents and brokers argued that the financial incentive for selling a low-cost auto policy was substandard and that they had concerns about the legal consequences of selling a policy that does not meet minimum legal coverage limits required of conventional policies and might not provide the consumer with an adequate level of coverage.

The 12 percent sales commission for a low-cost auto insurance policy is comparable to other insurance policies, but the amount of commission earned is relatively low because the premiums are relatively low, with commissions ranging from \$49 to \$68 per policy.

“CAARP agents in general may not be motivated to sell the low-cost policy because the commissions are relatively low, and the agents receive no commission for an application that is rejected by CAARP because the consumer does not meet the eligibility requirements.”

— Norma Garcia, Consumers Union

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“It seems feasible that many drivers who contact agents about the low-cost program ultimately decide to purchase insurance but in the ordinary voluntary market rather than through the pilot program.”

— Sam Sorich, National Association of Independent Insurers

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“We have a difficult time ... selling a product to a client when we know the real need is not addressed and when the price being charged for that benefit doesn’t come close to meeting the need. It is true that in some cases agents are [able] to sell a better policy ... where the benefit is much better and where the price is not that much higher.”

— Jerry Miller, Independent Brokers and Agents

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“We might want to look at incentives for agents and brokers in providing and selling the product.” — Rich Shrader, California State Automobile Association

■— This is a Pilot Program That Can Be Modified

There were a number of observations that the low-cost auto insurance program is a pilot program, which means it is an experiment, and when flaws are identified, they can be fixed to make the program more effective.

“It is important for people to understand that this is a pilot program. There is an opportunity to make adjustments, and it’s important that you take every opportunity to speak up and make your voices be heard.” – Norma Garcia, Consumers Union

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“I would implore you to not give up on this product, to work with it, to try and fix it, and make sure that it serves the public it is meant to serve.” – Janine Gibford, Association of California Insurance Companies

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“The purpose of a pilot program is really to look at your progress as you move along. It is in fact a work in progress. It is a pilot. Let’s look at ways of improving it so that it can become a better product and a more appealing product.” – Delia Chilgren, Allstate Insurance Company

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“The Legislature can come back and like we are doing now, to evaluate what’s gone wrong and what is working, if anything, in the program.” – Michael Gunning, Personal Insurance Federation

■— Recommended Changes

A variety of changes were recommended by hearing participants to make the low-cost auto insurance program more effective. They ranged from relatively modest changes, such as raising the income eligibility cap from the current 150 percent of federal poverty level to 200 or 250 percent to scrapping the current liability-only policy and adopting a “first party” policy that pays damages and other benefits to the policyholder following an accident.

Other suggestions include adding more pilot locations, providing subsidies to help low-income people purchase policies, and a “pay-at-the-pump” concept in which a gasoline tax would be used to fund free auto insurance for low-income drivers.

Any changes in the existing low-cost auto insurance program, except the premium cost, will require legislative action. Under the law, the insurance commissioner can adjust premium rates following an annual analysis of premium income and claims losses. However, the law requires rates to be actuarially sound, meaning expenses cannot exceed income in the program.

“We should develop a product at \$300 or less which provides medical coverage when you’re in an accident and loss of wage coverage. Greenlining believes instead of 800 policies, you would sell 700,000 in Los Angeles alone if you provided that kind of policy.” – Bob Gnaizda, Greenlining Institute

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“What we need is an insurance product that protects value for prospective low-income purchasers. And that product is what’s often referred to as no-fault insurance or first party coverage. What are we really after here? Getting people’s cars repaired, which is often the biggest asset they have, if you want to talk about asset protection. Getting their medical bills paid, getting lost wages paid for. That’s all first-party coverage, none of which is offered in the current low-cost auto policy.” – Kara Buck, State Farm Insurance

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“Use some of the dollar savings from the PR budget to decrease the cost to consumers. Look at the amount of money that’s been spent for public and community outreach that could have gone to help the consumers get this policy.” – Lori Gay, Director, Los Angeles Neighborhood Housing Services, and former CAARP Advisory Committee member

“A simple solution is ‘pay-at-the-pump.’ You can charge a few pennies, and everybody is automatically insured, especially your low-to-moderate income citizens. So everybody is automatically insured.”
– George Bivins, Black Business Association, CAARP Advisory Committee Member, and insurance broker

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“We suggest raising the income limit in San Francisco and also expanding the pilot program to more rural areas, such as Fresno and Modesto, where no such convenient public transportation system [as in San Francisco] is available.” – Darcy Ting, Consumer Action, San Francisco

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“In San Francisco, the average cost of parking is higher than the whole premium for the [LCA] policy itself. Many people who live in San Francisco use public transportation instead of driving their own vehicles. It should be no surprise that there’s been so few policies sold in San Francisco.” – Michael Gunning, Personal Insurance Federation

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“If you have five people in your family and all of you drive, then you can’t take advantage of the program. And also it is unfair to students because students are not considered low income, and that’s something that needs to be looked at.” – Tunisa Owens, California Black Chamber of Commerce

Conclusion

There appears to be a broad consensus that given California's financial responsibility laws for motorists and the large number of uninsured motor vehicles in the state, there is a compelling public policy argument for the state to address these two issues by creating an affordable automobile insurance policy for low-income motorists. That was the impetus for creation of the state-sponsored low-cost auto insurance pilot program.

However, as the pilot program approached its one-year anniversary, evidence was emerging that the program was not fulfilling its promise. The public hearings conducted by the California Department of Insurance attempted to find out why the low-cost policy was not selling in large numbers and how the program can be made more effective. The opinions of a diverse range of constituencies and stakeholders are summarized in this report.

Some hearing participants suggested that the lack of advertising and community outreach, or the ineffectiveness of the outreach, was the primary reason for the low volume of policy sales. The legislation that created the pilot program did not specifically authorize or appropriate funds for advertising or marketing. However, the Department of Insurance and the insurance industry spent well over a million dollars on marketing and outreach activities in the first year of the program.

Accepting the view that some of the initial marketing efforts may have been misdirected, the Department of Insurance has embarked on a grass-roots consumer education and outreach effort that focuses on partnerships with state and local government organizations and local nonprofit community-based organizations that serve a low-income clientele. The Department is developing outreach materials and working with these organizations to disseminate program information directly to the target population. This new outreach approach is producing significantly more public interest and has dramatically increased the number of low-cost policies sold – with recent monthly sales doubling and tripling earlier monthly averages. But the total number of policies sold is still quite small.

This suggests that more significant changes to the current program are needed than just improving consumer education and outreach if the state truly wants to provide an automobile insurance product that large numbers of low-income motorists can afford and would be willing to purchase with their very limited financial resources.

The Department of Insurance is committed to working with interested parties to achieve this goal.

Acknowledgments

The California Department of Insurance would like to acknowledge the participation of the many individuals and organizations that contributed to the success of the low-cost automobile insurance investigatory hearings. In particular, the Department wishes to acknowledge the contributions of the Greenlining Institute, Foundation for Taxpayer and Consumer Rights, Consumers Union, Personal Insurance Federation, and Association of California Insurance Companies.

The Greenlining Institute deserves special acknowledgement for assisting the Department of Insurance with coordination of hearing venues and its substantial oral and written testimony.

Copies of the hearing transcript and written testimony are available upon request by contacting:

Office of Community and Constituent Affairs
California Department of Insurance
300 Capitol Mall, Suite 1700
Sacramento, CA 95814
(916) 492-3500

APPENDIX A - Notice of Investigatory Hearing

STATE OF CALIFORNIA DEPARTMENT OF INSURANCE

May 25, 2001
File No.: IH-01-015022

NOTICE OF INVESTIGATORY HEARING REGARDING LOW-COST AUTOMOBILE INSURANCE PROGRAM

NOTICE IS HEREBY GIVEN that public hearings will be held for the purpose of gathering information, input, and suggestions regarding consumer education and outreach programs of the Insurance Commissioner relative to CALIFORNIA'S LOW-COST AUTOMOBILE INSURANCE PROGRAM as more specifically set forth below, at the following dates, times, and places:

June 26, 2001
10:00 a. m. to 1:00 p. m.

Mission Language Vocational School
2929 19th Street
(enter 701 Florida)
San Francisco, California 94110-2089

June 28, 2001
10:00 a.m. to 1:00 p.m.

Resurrection Church
3340 Opal Street
Los Angeles, California 90023-2917

Parking for the San Francisco hearing is available nearby at John O'Connell High School 2355 Folsom Street. Parking for the Los Angeles hearing is available behind Resurrection Church. Both hearing facilities are accessible to persons with mobility impairment.

The purpose of the hearing is to solicit comments on the California Low-Cost Automobile (LCA) Insurance Pilot program in the City and County of San Francisco and the County of Los Angeles, and how to maximize effectiveness of the program. The issues to be considered at the investigatory hearing include, but are not necessarily limited to:

- Effective strategies for raising awareness and educating eligible consumers about the LCA insurance program;
- Effective marketing messages and themes for generating consumer interest in the LCA insurance program; and
- Identification of motivating factors and barriers to purchase of LCA insurance policies.

The Commissioner wishes to hear testimony from the California Automobile Assigned Risk Program, low-income community advocates, consumer advocates, insurers, insurance agents and

brokers, and other interested parties on these issues. The Commissioner may request written testimony and/or documents to be provided in advance of the hearings.

The hearing will be structured, with accommodations made to witnesses who have made advance arrangements with the Department to testify or who have been invited by the Department of Insurance to testify. As time permits, members of the public and other interested persons will be encouraged to testify.

Persons who wish to submit written testimony, comments, or documents for the record, instead of testifying orally, may submit their written testimony, comments, or documents to the Department of Insurance in Sacramento.

The Department requests that all written testimony, comments, or documents sent to the Department on Insurance be provided in triplicate (original and two copies) and received by the Department of Insurance in Sacramento no later than 4:30 p.m. on June 28, 2001.

Please direct inquiries regarding this Notice of Investigatory Hearing, opportunities to testify, and written submissions (testimony, comments, and/or documents) for the record, to:

Linda Bryant
Office of Community and Constituent Affairs
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, California 95814
(916) 492-3569

The Department of Insurance will not accept any written testimony, comments, or documents transmitted to it by facsimile.

ADVOCACY OR WITNESS FEES

Persons or groups representing the interests of consumers may be entitled to reasonable advocacy fees, witness fees, and other reasonable expenses, in connection with their participation in this matter, as provided in California Code of Regulations Title 10, Section 2661.4. Interested persons should contact the Office of the Public Advisor at the following address:

California Department of Insurance
Office of the Public Advisor
300 Capitol Mall, Suite 1700
Sacramento, CA 95814
Telephone: (916) 492-3559

Dated: May 25, 2001

HARRY W. LOW
Insurance Commissioner

By: Edward H. Fong
Deputy Commissioner

APPENDIX B - Low-Cost Auto Insurance Pilot Program Fact Sheet

The Low-Cost Automobile Insurance Program created by SB 171 (Escutia) and SB 527 (Speier) became law October 10, 1999, and authorized low-cost automobile insurance pilot programs for San Francisco and Los Angeles counties to commence July 2000 and end January 1, 2004. The theory behind the program was that most uninsured drivers in California go without liability insurance because of the cost, and would purchase insurance if affordable coverage were available. The program goal is to provide low-cost automobile liability insurance to good drivers who demonstrate financial need. The California Automobile Assigned Risk Plan (CAARP) is designated as the program administrator. The Department of Insurance has oversight over the program.

Policy Cost and Payment Plans:

- The base rate is \$450 in Los Angeles County and \$410 in San Francisco County. CAARP may adjust the base rates after six months to reflect actual loss experience.
- A surcharge of 25 percent is required on policies for unmarried, male drivers between the ages of 19-25.
- The policy may be paid in full on issuance of a policy or may be purchased with a \$100 down and six monthly payments, or by making a down payment of 25 percent of the policy cost and 5 monthly payments.

Policy Coverage:

Each policy covers the vehicle's primary driver and eligible secondary drivers (two-vehicle maximum) for an initial term of one year, renewable on an annual basis.

The liability limits are \$10,000 bodily injury or death per person, \$20,000 bodily injury for each accident, and \$3,000 property damage for each accident.

The coverage limits are less than the mandatory limits required in California of 15/30/5, but purchasing these lower limits will satisfy the state's current financial responsibility laws.

Program Eligibility:

Applicant must be a resident of Los Angeles or San Francisco County.

Applicant must have been continuously licensed to drive for three years (foreign licenses now apply).

Applicant must be a "Good Driver"; in the past three years, the driver cannot have:

- More than one at fault property damage only accident. OR,
- More than one point for a moving violation.
- An at-fault accident involving bodily injury or death.
- A felony or misdemeanor conviction for a violation of the Vehicle Code on their DMV record.

The gross annual income of the applicant's household may not exceed 150 percent of the federal poverty level:

- Single Person \$12,885; Family of Four \$26,475; Family of Eight \$44,595.
- Value of the covered vehicle must be \$12,000 or less.
- No vehicle in the household may currently be insured via a non-pilot program policy.
- A college student may not be claimed as a dependent on another person's federal or state income tax.

APPENDIX C - Hearing Participants

ACORN -- Amy Schorr (LA)
Allstate Insurance Company – Delia Chilgren (SF)
Allen Temple Baptist Church – Sabrina Charles (SF)
American Agents Alliance – Lorelle Kitzmiller (LA)
Asian Business Association – Tara Purhoit (SF)
Association of California Insurance Companies – Janine Gibford (LA)
Black Business Association – George Bivins (former Chair) (LA)
California Automobile Assigned Risk Plan – Richard Manning (SF, LA)
California Casualty Management Company – James M. Sevey
California State Automobile Association – Rick Shrader (SF)
California Black Chamber of Commerce – Tunisia Owens (SF)
California Hispanic Chamber of Commerce – Guy Johnson
Consumer Action – Darcy Ting (SF)
Consumer Action - Guadalupe Aguilar (LA)
Consumers Union – Norma Garcia (SF)
Consumer Attorneys of California - Robert Fink (LA)
Council of Asian American Business Association - Molly Hart for Darlene Mar (SF, LA)
CHARRO Community Corporation – Richard Amador (LA)
El Concillio of San Mateo County – Perlita Dicochea (SF)
Foundation for Taxpayer and Consumer Rights – Doug Heller (LA)
Greenlining Institute – Bob Gnaizda (SF, LA)
Greenlining Institute – Itzel Barrio (SF, LA)
Greenlining Institute – Jorge Danganan (SF)
Hermandad Mexicana Nacional – Nativo Lopez (LA)
Hermandad Mexicana Nacional – Lilia Gutierrez; Maria Vera (LA)
Hermandad Mexicana Nacional – David Vela (SF)
Insurance Brokers and Agents - West – Joe Hernandez (LA)
Latin Business Association – Jorge Corralejo (LA)
Los Angeles Neighborhood Housing Services – Lori Gay (LA)
Latino Issues Forum – Laura Lopez Sanders (SF)
Mission Language School (of San Francisco) – Rosario Anaya (SF)
National Association of Independent Insurers – Sam Sorich (SF)
Personal Insurance Federation of California – Diane Colburn (VP Leg. Affairs) (LA)
Personal Insurance Federation of California – Michael Gunning (SF)
Project Amiga – Irene Portillo (LA)
Quibit General Insurance Services – Edward Beneville (LA)
Resurrection Church and School – Father John Moretti (LA)
Resurrection Church Home Owners – Maria Duran (LA)
Senator Jackie Speier – Brian Perkins (SF) (LA)
Senator Marta Escutia – Caesar Motts (LA)
State Farm Insurance – Kara Buck (SF, LA)
South East Asian Community Center -- Phillip Tuong (SF)

Consumers:

Aurula (LA)	Ciekski (LA)	Carlos Pantoya (LA)
Soledad Alatorre (LA)	Mrs. Virginia Vega (LA)	Ross Valencia (LA)
Maria Luisa Aguilar (LA)	Dan Brackovitch (SF)	Aurelio Jimenez (SF)
Richard Alva (SF)	Angela Zielinski (SF)	Gabriel Razo (SF)
Carla Hemera (SF)		

APPENDIX D - Written Testimony

Itzel Berrio – Greenlining Institute

Norma P. Garcia – Consumers Union

Robert Gnaizda – Greenlining Institute

Michael A. Gunning – Personal Insurance Federation of California

Douglas Heller – Foundation for Taxpayer and Consumer Rights

James M. Sevey – California Casualty Management Company

APPENDIX E - Bibliography - Reports, Documents, and Articles Cited

Estimated Rate of Uninsured Motorists 1995-1997

California Department of Insurance

July 1998

The Affordability of Auto Insurance Among Low Income Families in Los Angeles

Consumer's Union

Juan L. Gonzales Jr., Ph.D. (Consultant)

Spring 1991

California DMV Information: licensing and vehicle registration requirements

www.dmv.ca.gov

California Legislation Information: www.leginfo.ca.gov